CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 5, 2000

H.R. 2764
America's Private Investment Companies Act

As ordered reported by the House Committee on Banking and Financial Services on April 13, 2000

SUMMARY

H.R. 2764 would establish the America's Private Investment Companies (APIC) program within the Department of Housing and Urban Development (HUD) to provide federal loan guarantees to qualified venture capital corporations that invest in low-income communities. The bill would authorize appropriations of $36 million a year over the 2000-2004 period to cover the subsidy costs of such loan guarantees. For each fiscal year, HUD could make commitments to guarantee loans only to the extent that the total loan principal, any part of which is guaranteed, would not exceed $1 billion or the amount specified in appropriations acts. The bill would also authorize the appropriation of $1 million annually over the five-year period for administrative expenses.

CBO estimates that implementing H.R. 2764 would cost about $135 million for loan subsidy and administrative costs over the 2001-2005 period, assuming appropriation of the necessary amounts. Because H.R. 2764 could affect offsetting receipts (a form of direct spending), pay-as-you-go procedures would apply. CBO estimates, however, that any impact on direct spending would not be significant. H.R. 2764 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates that the cost of the mandate would not be significant. The bill does not contain any new private-sector mandates as defined by UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

For the purpose of this estimate, CBO assumes that H.R. 2674 will be enacted in fiscal year 2000 and that funds will be provided for its implementation each year. The estimated budgetary impact of H.R. 2674 is shown in the following table. The costs of this legislation fall within budget function 450 (community and regional development).

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
SPENDING SUBJECT TO APPROPRIATION						
Spending for APIC Under Current Law						
Budget Authority [a]	20	0	0	0	0	0
Estimated Outlays	2	6	8	4	0	0
Proposed Changes						
Estimated Authorization Level	17	38	38	38	39	3
Estimated Outlays	1	12	24	34	39	35
Spending Under H.R. 2764						
Estimated Authorization Level [a]	37	38	38	38	39	3
Estimated Outlays	3	18	32	38	39	35

a. For 2000, $20 million has been appropriated for this program, contingent upon authorization of the APIC program before June 30, 2000.

BASIS OF ESTIMATE

Under procedures established by the Federal Credit Reform Act of 1990, the subsidy cost of a loan guarantee is the estimated long-term cost to the government, calculated on a net present value basis. Based on the past performance of similar Small Business Administration (SBA) programs, CBO expects that APIC borrowers would default on between 25 percent and 30 percent of guaranteed loans. In the event of a default, CBO expects that the agency would liquidate the APIC investments, but this process would take a number of years. Consequently, CBO estimates that HUD would recover only about 50 percent of the loan balance three years after default. In addition, based on information from the Administration, we assume that HUD would charge a 1 percent origination fee when the loan is disbursed and a 0.77 percent annual fee. Under these assumptions, the program would operate at a subsidy cost equal to 5 percent of the amounts guaranteed.

H.R. 2764 would authorize the appropriation of $36 million annually for the subsidy cost of APIC loan guarantees, and this estimate assumes such appropriations. CBO estimates that this amount would be sufficient to cover the subsidy costs of $720 million of loan guarantees under this program. (The estimated subsidy cost to guarantee $1 billion in loans under the APIC program would be about $50 million annually.) While the bill would authorize the appropriation of $1 million annually over the 2000-2004 period for administrative costs, CBO estimates this amount would not be sufficient to administer these loan guarantees.

Based on the operation of similar SBA programs, we estimate that $2 million to $3 million would be needed each year to administer these loan guarantees, and that these costs would continue over the 10-year term of the guarantees.

PAY-AS-YOU-GO CONSIDERATIONS:

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending and receipts. Section 111 would provide for civil penalties against APICs that fail to comply with regulation that would be established under H.R. 2764. Payments of these civil penalties would be recorded as miscellaneous receipts to the Treasury. CBO expects that any increase in penalty collections as a result of this provision would not be significant.

IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 2764 would preempt state laws with regard to the seniority of debt issued by APICs. Such a preemption of state law is an intergovernmental mandate as defined in UMRA, but CBO estimates that this mandate would impose no significant costs on state, local, or tribal governments.

The bill also provides that state and local governments may choose to assume responsibility for environmental reviews needed for certain projects and activities financed by an APIC. Any costs to carry out such environmental reviews would be incurred voluntarily.

IMPACT ON THE PRIVATE SECTOR

H.R. 2764 contains no new private-sector mandates as defined in UMRA.

ESTIMATE PREPARED BY:

Federal Costs: Lanette Keith and Mark Hadley
Impact on State, Local, and Tribal Governments: Victoria Heid Hall
Impact on the Private Sector: Patrice Gordon

ESTIMATE APPROVED BY:

Robert A. Sunshine
Assistant Director for Budget Analysis